

Commonwealth of Kentucky
Before the Public Service Commission

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OCT 27 2003

OFFICE OF THE ATTORNEY GENERAL
OFFICE OF RATE INTERVENTION

In the Matter of:

APPLICATION OF NORTHERN KENTUCKY)
WATER DISTRICT FOR (A) AN) Case No. 2003-00224
ADJUSTMENT OF RATES; (B) A CERTIFICATE)
OF PUBLIC CONVENIENCE AND NECESSITY)
FOR IMPROVEMENTS TO WATER FACILITIES)
IF NECESSARY AND (C) ISSUANCE OF BONDS)

REQUEST FOR INFORMATION BY THE ATTORNEY GENERAL
TO THE NORTHERN KENTUCKY WATER DISTRICT

The Attorney General of the Commonwealth of Kentucky, by and through his Office of Rate Intervention, submits this Request for Information to the Northern Kentucky Water District.

- (1) In each case where a request seeks data provided in response to a staff request, reference to the appropriate request item will be deemed a satisfactory response.
- (2) Please identify the company witness who will be prepared to answer questions concerning each request.
- (3) These requests shall be deemed continuing so as to require further and supplemental responses if the company receives or generates additional information within the scope of these requests between the time of the response and the time of any hearing conducted hereon.

(4) If any request appears confusing, please request clarification directly from the Office of Attorney General.

(5) To the extent that the specific document, workpaper or information as requested does not exist, but a similar document, workpaper or information does exist, provide the similar document, workpaper, or information.

(6) To the extent that any request may be answered by way of a computer printout, please identify each variable contained in the printout which would not be self evident to a person not familiar with the printout.

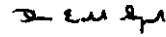
(7) If the company has objections to any request on the grounds that the requested information is proprietary in nature, or for any other reason, please notify the Office of the Attorney General as soon as possible.

(8) For any document withheld on the basis of privilege, state the following: date; author; addressee; indicated or blind copies; all persons to whom distributed, shown, or explained; and, the nature and legal basis for the privilege asserted.

(9) In the event any document called for has been destroyed or transferred beyond the control of the company state: the identity of the person by whom it was destroyed or transferred, and the person authorizing the destruction or transfer; the time, place, and method of destruction or transfer; and, the reason(s) for its destruction or transfer. If destroyed or disposed of by operation of a retention policy, state the retention policy.

Respectfully submitted,

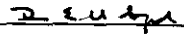
A.B. CHANDLER III
ATTORNEY GENERAL



David Edward Spenard
Assistant Attorney General
1024 Capital Center Drive, Suite 200
Frankfort, Kentucky 40601-8204
502-696-5453
(FAX) 502-573-8315

Notice of Filing

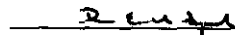
Counsel gives notice of the filing of the original and ten photocopies of Request for Information by hand delivery to Thomas M. Dorman, Executive Director, Public Service Commission, 211 Sower Boulevard, Frankfort, Kentucky 40601. 27 October 2003 is the date of filing.



Assistant Attorney General

Certificate of Service

Counsel certifies service of a true and correct photocopy of the Request for Information. Service was through mailing the document, first class postage prepaid, to the other parties of record on 27 October 2003. The following are the other parties of record: Ronald J. Barrow, Northern Kentucky Water District, P. O. Box 230, Cold Spring, Kentucky 41076; John N. Hughes, 124 West Todd Street, Frankfort, Kentucky 40601; and Charles H. Pangburn, III, Hemmer, Spoor, Pangburn, DeFrank & Kasson PLLC, 250 Grandview Drive, Suite 200, Fort Mitchell, Kentucky 41017.


Assistant Attorney General

REQUEST FOR INFORMATION BY THE ATTORNEY GENERAL
TO THE NORTHERN KENTUCKY WATER DISTRICT

- 1) In its Notice to Customers included in Exhibit L, NKWD states that the requested rate increase of \$2,518,862 represents approximately a 4% average increase over current rates. Please reconcile this to NKWD's statement on page v in the Executive Summary of Exhibit N that the \$2,518,862 rate increase represents a 8.26% increase over current water sales revenues.
- 2) Paragraph 12a of the Petition makes mention of a "construction program contained in the Five Year Plan, attached as Exhibit W." The AG's filing copy did not contain this Exhibit W. Please provide a copy of this exhibit.
- 3) On page 2 of his testimony, Mr. Lovan states that the application in this case includes a request for bonds in the approximate amount of \$13.5 million. Similarly, on page 3 of his testimony, Mr. Harrison states that "the District is requesting \$13,500,000 in permanent financing for the projects listed in Exhibit O..." Please reconcile this to NKWD's request for parity bonds of \$10,455,000 in this case. In addition, describe where in the filing exhibits this permanent financing of \$13.5 million can be found.
- 4) On page 3 of his testimony, Mr. Harrison states that "for the next five years there is approximately \$79,000,000 of projects which will need to be funded and constructed." Please reconcile this \$79 million to the total cumulative 5-year construction program cost of approximately \$68 million shown in Exhibit R.
- 5) In response to Q9 of his testimony, Mr. Sparrow states that Exhibit K for which he is responsible "is an attempt to portray the adjustments and pro-forma changes which were prepared by Mr. Barrow in Exhibit G and Mr. Ross in Exhibit A." Please confirm that the only pro forma adjustments reflected in the Exhibit K pro forma balance sheet and income statement are the \$115,860 depreciation expense adjustment and the \$539,182 O&M expense adjustment. In addition, explain why the Exhibit K pro forma statements do not include the pro forma debt service and outstanding debt changes described by Mr. Ross in Exhibit A and all of the metered sales revenue adjustments described in Schedule 7 of Exhibit N.
- 6) In the same format and detail as per page 27 of Exhibit C, provide the number of customers for the beginning of the pro forma year (5/31/02) and the end of the pro forma year (5/31/03) in total and by account.
- 7) Please provide a worksheet showing all calculations and assumptions in support of the New Connections revenues of \$138,787 shown in Exhibit N, Schedule 7. Include any supporting source documentation.

- 8) In the same format and detail as per the top part of page 30 of Exhibit C, provide the annual gallons sold, average rate per gallon sold and annual revenues associated with each of the Sales for Resale customers during the test year ended 5/31/03.
- 9) In the same format and detail as per page 30 of Exhibit C, provide identical actual "Water Statistics" (gallons of water produced and purchased; gallons of water sold; other water uses; UFW amount and percentage) for the test year ended 5/31/03.
- 10) Please provide the status of the sales contracts with Boone and Florence. If these sales contracts expired, indicate the exact date(s) of termination of these contracts.
- 11) As described on pages 15 and 16 of the PSC Order in Case No. 2002-00105, in its prior case NKWD removed the revenues associated with the water sales to Boone and Florence and, consistent with that adjustment, also removed the test year operating expenses associated with that sales. In this regard, please provide the following information:
 - a) Provide the actual number of test year gallons associated with the Boone and Florence test year sales revenues of \$3,958,575 the District is proposing to remove from this case.
 - b) Explain why the District has not removed the operating expenses (purchased water, purchased power, chemicals, sludge handling, materials and supplies, etc.) associated with these removed test year gallons of water, similar to what it proposed to do in its prior rate case.
 - c) Provide a worksheet showing the calculations and assumptions to determine the operating expense savings associated with these removed sales of water. Show exactly how you derived the assumed cost per gallon of water. In addition, include any supporting source documentation.
- 12) Please provide a worksheet showing all calculations and assumptions in support of the \$7,235,654 revenue adjustment shown in Exhibit N, Schedule 7 to reflect the annualized impact of the prior case rate increase of \$7,748,193 that became effective on June 10, 2003. Include any supporting source documentation.
 - a) In addition, explain why the annualized revenue impact is only \$7,235,654 given that the rate increase in Case No. 2002-00105 was \$7,748,193.
- 13) For each of the years 2000 and 2001, provide the actual Miscellaneous Income and Interest Income amounts listed in Exhibit N, Schedule 6.

- 14) Schedule 6 shows Interest Income of \$1,263,800 for the year 2002. However, both Exhibits C and I indicate 2002 Interest Income of \$1,148,898. Please reconcile this.
- 15) For each of the years 2000 and 2001, provide the actual Revenues Not Subject to Rate Increase in the same format and detail as listed in Exhibit N, Schedule 5.
- 16) With regard to the revenues shown in Exhibit N, Schedule 5, please provide the following information:
- a) The total revenues for the test year ended May 2003 would appear to add to \$1,279,553, or \$21,535 lower than the reflected revenue total of \$1,301,088. Please reconcile and explain this.
 - b) What do the 2002 surcharge revenues of \$16,887 and the test year surcharge revenues of \$199,482 represent and what are the reasons for these surcharges?
 - c) Where (in which account and line item) are the actual 2002 surcharge revenues of \$16,887 reflected on page 27 of Exhibit C? And where are the actual test year surcharge revenues of \$199,482 reflected in Exhibit I and in the revenue breakout in the response to PSC Question 1B? If not reflected in a revenue account, indicate where these surcharge revenues are recorded on the Districts books.
- 17) With regard to the test year O&M expenses of \$18,101,623 reflected in the response to PSC-1C, please provide the following information:
- a) It appears that these test year O&M expenses include all of the pro forma test year O&M adjustments. Please provide the Combined Operations column numbers based on the *per books* test year results, not the pro forma adjusted test year results.
 - b) Provide a worksheet reconciling the total test year O&M expense level of \$18,101,623 to the total test year O&M expense level of \$18,057,515 reflected in Exhibit N, Schedule 2.
- 18) Please provide a description of the type(s) of advertising making up the test year advertising expense of \$4,489. In addition, provide copies of the ads making up this expense.
- 19) Please provide a detailed breakout and description of the nature and purpose of the total Education/Recreation expenses of approximately \$100,000 included in the test year in account 604.

- 20) Please provide a listing and quantification of all donation and/or lobbying expenses included in the test year expense. In addition, identify the account number(s) in which these expenses are recorded.
- 21) Provide a breakout and listing of the test year Dues and Subscription expenses of \$25,023.
- 22) Please provide the actual Health Insurance expenses incurred by the District in 2001 and 2002.
- 23) With regard to Insurance Other Than Health, please provide the following information:
- a) As described on page 15 of the PSC Order in Case No. 2002-00105, the 2002 insurance premiums were \$40,056 for Vehicles, \$110,442 for Worker's Comp and \$167,873 for General Liability, for a total 2002 insurance cost of \$318,371. Exhibit C in the current case shows total 2002 insurance of \$443,712 (\$50,464 for Vehicles, \$183,437 for Workers Comp and \$209,811 for General Liability and Other). Please reconcile these two different sets of 2002 insurance numbers.
 - b) Compare the actual insurance costs, in total and broken out by component, booked by the District in 2000, 2001, 2002 and the test year and explain the large increases from year to year.
- 24) With regard to the response to PSC-10A, what is the District's proposed position in this case concerning the rate case expenses to be incurred for the instant rate case?
- 25) The response to PSC-1A shows that the District booked \$184,372 for Acquisition Adjustment amortizations and \$189,820 for other Amortization expenses. Please explain the nature and purpose of these amortization expenses. In addition, explain whether the District is claiming these as operating expenses for purposes of determining the revenue requirement and requested rate increase in this case. If not, explain why not.
- 26) With regard to the claimed annualized test year depreciation expense of \$4,652,529, please provide the following information:
- a) What represents the difference between the actual test year booked depreciation expense of \$4,768,389 and the depreciation expense of \$4,652,529 claimed for ratemaking purposes in this case? (see Exhibit K, page 5).
 - b) Referring to the annual depreciation calculations in Exhibit N, Schedule 4, are there any depreciable assets included in this schedule that were not in service

during the test year and/or have not been bid? If so, identify these assets and indicate the claimed depreciation expense associated with these assets.

- 27) Given that the debt service was determined based on a 3-year average in the prior Case No. 2002-00105, what compelling reasons are there to calculate the average debt service amount based on a 5-year average, as shown in Exhibit N, Schedule 3?
- 28) Is the District contemplating refinancing any of the existing bond issues listed in Exhibit A? If so, quantify the resulting debt service savings as compared to the currently claimed debt service amount of \$10,569,411.
- 29) With regard to the debt coverage ratio calculated in the response to PSC-11C, please provide the following information:
 - a) Why was an Other Operating Revenue Not Subject to Rate Increase of \$1,223,193 used rather than the amount of \$1,301,088 reflected in Schedule A of Exhibit N?
 - b) Why was a Non-Operating Income amount of \$984,428 used rather than the amount of \$1,188,710 reflected in Schedule A of Exhibit N?
 - c) Why wasn't the Boone/Florence reserve amortization of \$538,584 used as revenues to determine the coverage ratio, similar to what the PSC did on Appendix C to the Order in Case No. 2002-00105?
 - d) What represents the Service Applications amount of \$633,153 and where are these revenues reflected on Schedule A of Exhibit N?
 - e) What is the actual Debt Service Coverage formula required by the District's bond ordinances? Is this (1) the "20% times debt service requirement" formula or (2) the minimum 1.20 ratio of revenues available for cash expenses and debt service less cash operating expenses, divided by debt service?
- 30) Please provide a complete copy of the contract between NKWD and the City of Newport concerning the acquisition of the City's water system by NKWD.
- 31) Please provide a complete copy of NKWD's existing tariff.
- 32) Please provide a detailed explanation of the differences between NKWD's primary cost of service study and Appendix D, including a listing of the specific cost and/or allocation differences between the two analyses.
- 33) Re: Cost of Service Analysis and Rate Design (Exh. N), p. v. The document states that it "complies with the PSC's directive to unify the City of Newport's rates with those of Campbell and Kenton Counties." Please provide a copy of the PSC order

that contains this directive, including the precise quotation and page reference on which the "directive" appears.

- 34) Re: Exh. N, p. v. Please explain the statement: "The proposed rates recover 100 percent from all customers." Specifically, "100 percent" of what is recovered from all customers?
- 35) Re: Exh. N, p. vi. On what basis are fire protection costs spread among the other customer classes (e.g., revenues, number of bills, number of customers, consumption, etc.)? Why is this method used rather than some other method of spreading those costs?
- 36) Re: Exh. N, p. 1. The document states that one of the considerations used in designing rates is "local policy considerations." Please describe in detail the "local policy considerations" that were taken into account in designing rates and how those considerations affected the recommended rate design.
- 37) Re: Exh. N, p. 1. The document describes the treatment plants and water sources for NKWD. Is there any physical interconnection between the Newport system (served by Memorial Parkway WTP) and any other portion of NKWD? If so, please describe the interconnection in terms of its physical location, length and size of main(s), hydraulic capacity, direction of flow, and utilization under average day and peak day conditions.
- 38) Re: Exh. N, p. 7. The document states that certain types of revenue are "not subject to the rate increase." Concerning this statement:
- a) Why is it assumed that forfeited discounts will not increase if there is a rate increase?
 - b) The description includes fees for "connections" and "turning meters on" but Schedule 5 shows a column only for "turn on fees." What is the distinction between a "connection" charge and a "meter turn on" charge (that is, when does a customer pay one fee as opposed to the other)?
 - c) Does the column for "turn on fees" in Schedule 5 include connection charges? If not, please explain why "connection" revenues are not included on this schedule.
 - d) Please provide a workpaper showing the number of "meter turn on" charges collected during the test year and the charge per turn on.
 - e) Please provide a workpaper showing the number of "connection" charges during the test year and the rate per connection (if different amounts are charged depending on the nature or location of the connection, please show each charge

separately and explain the circumstances under which each such charge is levied).

- f) For the test year, please provide a workpaper that lists each surcharge levied by NKWD, the amount of the surcharge, the number of bills on which the surcharge is charged, and the total revenue from each such surcharge.
- g) Why is NKWD not proposing to increase the rates for any of the surcharges?
- h) Are any or all of the surcharges designed to recover specific elements of the cost of service (for example, is there a surcharge that is supposed to recover a portion of the debt service on a particular bond, etc.)? If so, please describe and quantify the specific costs elements associated with each such surcharge.
- i) Please provide a breakdown of revenues from forfeited discounts, meter tests, returned check charges, turn-on fees, and surcharge revenues by customer class for the test year.

39) Re: Exh. N, pp. 7-8. On page 7, the document states that forfeited discounts are included in "revenues not subject to rate increase." On page 8, it states that "water sales revenues include revenue from the actual sale of water and forfeited discounts." Are forfeited discount revenues included in Schedule 7? If so, please provide a workpaper showing the equivalent of Schedule 7 excluding forfeited discounts.

40) Re: Exh. N, p. 9. The document states that the "cost of service to be allocated" is the total cost of service less "income received from charges not subject to the rate case increase and non-operating revenues." Does this mean that forfeited discounts have been removed from the determination of the cost of service to be allocated? If so, please explain why this was done. If it was an error to do so, please provide all corrections to the analysis that are required.

41) Re: Exh. N, p. 13. In the document, it states: "In accordance with the 2002 Order, water mains with a diameter less than 12 inches have been classified as 'distribution' ..." (emphasis added) In the Commission's order in Case 2002-00105 (page 26), it states: "The Commission finds that costs associated with mains smaller than 10 inches should not be allocated to the wholesale class." (emphasis added) Does the cost of service study in this case classify costs of 10-inch mains as being solely related to distribution? If so, please provide a revised version of Schedules 10 and 11 that includes the classification of mains that are 10 inches in diameter as transmission (that is, classified as serving all customers and not just retail customers).

- 42) Re: Exh. N, p. 13, note 2. Please provide copies of all documents that support the assertion that wholesale customers “receive approximately 20 percent of their water through mains that are either 8 inches or 6 inches in diameter.”
- 43) Re: Exh. N, p. 29, note b. The note states that the units of service analysis “includes 9 months of consumption associated with the City of Bromley.” Concerning this:
- a) Why is less than a full year of consumption included for Bromley?
 - b) Please provide the changes that would be necessary to recognize a full 12 months of consumption from Bromley.
 - c) Is Bromley expected to be a customer as of the end of the test year?
 - d) How many meter charges for Bromley are included in the units of service analysis?
- 44) Re: Exh. N, p. 29. Please provide all documents that support the maximum day and maximum hour capacity factors shown on Schedule 13.
- 45) Re: Exh. N, p. 34. Please describe the specific methodology that was used to develop the commodity charges for each of the consumption blocks. If the methodology is set forth in an AWWA manual, please provide a reference to the manual and page. If the methodology is set forth in some other document(s), please provide a copy of such document(s).
- 46) Re: Exh. N, p. 34. Please describe the specific methodology that was used to determine the amount of water that is included in each commodity block (that is, the consumption cut-off for each block). If the methodology is set forth in an AWWA manual, please provide a reference to the manual and page. If the methodology is set forth in some other document(s), please provide a copy of such document(s).
- 47) In light of the very different block structure (that is, the amount of water included in each block) of Newport and the main NKWD system, did NKWD consider changing the block structure for all customers, phasing in changes for Newport, or otherwise mitigating in some fashion the impact of the NKWD block structure on Newport customers? If so, please provide all documents that show or discuss any such options. If not, please explain why not.
- 48) In developing the meter cost equivalents, did NKWD specifically include an analysis of costs associated with meter reading for meters of different sizes (for example, did NKWD analyze the number of 5/8-inch meters read per hour as opposed to the number of 6-inch meters read per hour)? If so, please provide a copy of such analysis. If not, please provide a workpaper showing the average number of meters read per day for each size of meter for each meter route. If information is not kept

by meter route, then please provide a workpaper showing for each meter book, the number and size of meters in that book, and the average number of hours per month during the test year that it took to complete that book.

49) Please describe specifically how the information contained in Appendix B was used to design rates in this case.

50) Re: Exh. N, Sch. 10.2:

- a) Why are T&D Structures and Improvements allocated, in part, to the Metering function?
- b) Why is none of the cost of T&D Large Mains allocated to the Maximum Hour function?
- c) Schedule 10.2 states that Contributed Capital is allocated to "Common to All" but Schedule 11 shows that it is allocated to "Distribution System Customers Only." Which is correct and why?

51) Re: Exh. N, Sch. 12:

- a) There appears to be an error on lines 80-129, in that the same allocation factor is used for both maximum day and maximum hour costs. If this is not an error, please explain why the costs have been allocated as shown on the schedule. If it is an error, please indicate the effect of correcting the error on the class cost of service and proposed rate design.
- b) Why is Bad Debt expense assigned solely to the Billing function while revenues from Forfeited Discounts and Bad Checks are assigned across all functions?
- c) Why are costs associated with Meters and Services assigned solely to the Metering function while revenues from Connections, Turn Ons, and Meter Tests are assigned across all functions?

52) Re: Exh. N, Sch. 12.2:

- a) Please provide a specific rationale, including supporting documents, for allocating electricity costs 90% base and 10% maximum day.
- b) Why are purchased water costs assigned solely to the base function? Is this consistent with the way in which purchased water is used by the system? Please provide documents that show when and how water is purchased by NKWD.

- c) Schedule 12.2 states that Instrumentation costs (lines 21-23) are allocated to the Base and Maximum Day functions. However, Schedule 12 (lines 55-59) shows all such costs being allocated to the Base function. Which is correct and why?
 - d) Why is "All Other [Distribution] Labor" allocated to the base function, while other Distribution costs are allocated to several other functions?
 - e) What are "Field Service" costs and why are they allocated solely to the Billing function?
 - f) Why are Flushing costs allocated only to the Base and Fire functions (that is, why are none of the costs allocated to maximum day or maximum hour functions)?
- 53) Re: Exh. N, Sch. 13.1. Please provide a workpaper showing the source and development of the equivalent meter ratios.
- 54) Re: Exh. N, Sch. 16.4. In the spreadsheet that provides the source for this schedule, (Tab: Sch16 in File: PSCCopy_RateCase03_0831Filing_O_WithNewportRevCalc) it shows a "COS" column and a "Use" column for the rates for each consumption block. The columns are the same except that the "Use" column for the first block rate is \$0.02 higher than the "COS" column. Please explain the meaning of the "Use" column, how it was derived, and why the only difference between the columns appears in the first consumption block rate.
- 55) Re: Exh. N, Sch. 18. Footnote (a) to the schedule says that residential revenue includes Forfeited Discounts. However, the spreadsheet that provides the source for the schedule (Tab: Sch17 in File: PSCCopy_RateCase03_0831Filing_O_WithNewportRevCalc) does not show any reference to Forfeited Discounts in the revenue calculation. Please verify the accuracy of the footnote and, if it is accurate, explain in detail how Forfeited Discounts are included in the calculation.
- 56) Please identify the District's reservoirs or settling basins. For each reservoir or settling basin, please supply the following.
- a) The location of each reservoir or basin.
 - b) The present capacity of each reservoir or basin.
 - c) The reason why the reservoir or basin is used and useful within the District's system.
 - d) A summary, by reservoir or basin, of any remediation, rehabilitation, or dredging activity or projects (with approximate cost) for each reservoir or basin since January 1, 1998.

- 57) The retail water rates include several surcharges. With regard to each surcharge, please answer the following.
- a) If the authority for the surcharge is not KRS 74.395, please identify the Kentucky Revised Statute(s) that provide the District with the authority to impose a surcharge.
 - b) If the surcharge is pursuant to KRS 74.395, indicate whether any of these surcharges have been in place longer than five years. If yes, please identify each surcharge in place longer than five years and the reason why.
 - c) If the desire of the District is to unify rates for all customers, please explain the rationale for having these surcharges in the rate structure.